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AT&T

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March 30, 1999

Magalie Roman Salas, Secretary
Federal Communications Commission
445 Twelfth Street, SW Room TWB-204
Washington, D.C. 20554

Re: Notice of Ex Parte meeting: In the matter of Access Charge reform, CC Docket No. 96-262; Price Cap Performance Review for LECs, CC Docket No.94-1; MCI Telecommunication Corp. Emergency Petition for Prescription, CC Docket No. 97-250; Consumer Federation of America Petition for Rulemaking, RM-9210; CC Docket No.96-45 Universal Service.

Dear Ms. Salas:

On Tuesday, March 29, 1999, I met with Yog Varma, Deputy Chief of the Common Carrier Bureau, of the Federal Communications Commission, concerning matters related to the referenced proceedings. We discussed the arguments reflected in AT&T's filings in these proceedings concerning access reform and LEC pricing flexibility. The written presentation used at the meeting is attached.

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

Joel E. Lubin

Attachment
cc: Yog Varma

Access Charge Reform for Local Exchange Carriers

Access Charge Reform for Local Exchange Carriers

Access Reform

AT&T's position....

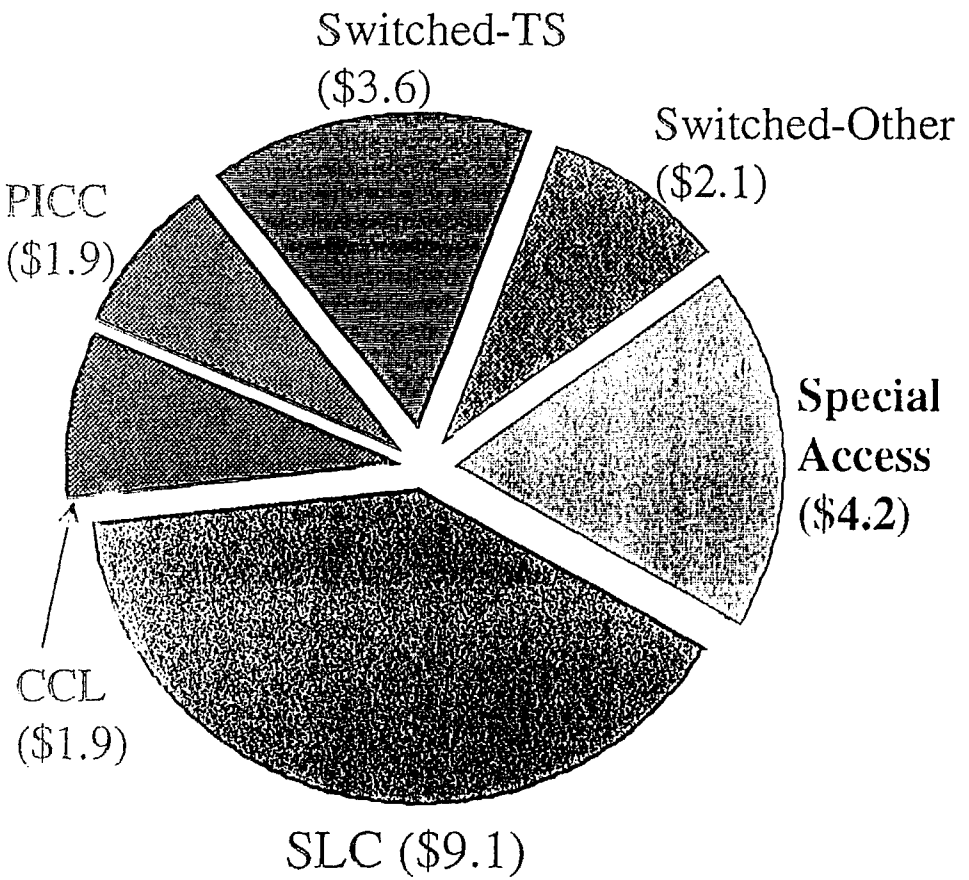
- Competition robust enough to drive down access rates has not developed anywhere in the nation, and the ILECs continue to price at the upper limit in every basket
- The FCC's market-based approach to access reform is not working
- Access charges must be reduced to cost before RBOC 271 entry

Access Reform
Update and Refresh Record

AT&T's position continued....

- The FCC should prescribe that Access rates be set at Economic Cost using FLEC principles
- The FCC should increase the X-Factor to reflect interstate only data, rather than total company productivity data

Access Cost By Major Categories -- All Price Cap Companies



In Billions ($)	
• SLC	$ 9.1
• CCL	$ 1.9
• PICC	$ 1.9
• Switched-TS	$ 3.6
• Switched-Other	$ 2.1
• **Special Access**	**$ 4.2**
Total All Companies	***$22.8***

Price Cap Companies

(Rate of Return by Basket)

(1997 - Base Year)

	Common Line Basket	Switching Basket	Trunking Basket	Total
Price Cap LECs	8.88%	45.16%	15.29%*	15.09%*

***If Special Access is removed the Rate of Return would be higher.**

Price Cap Regulation--
Reinitialization of Interstate X-Factors

Reinitialize to:	Current X=6.50%	Reinitialize to 8.40%	Reinitialize to 9.30%	Reinitialize to 10.20%
July 1998	N/A	($442)	($651)	($860)
July 1997	N/A	($886)	($1298)	($1765)
July 1996	N/A	($1320)	($1947)	($2565)
July 1995	($370)	($2029)	($2952)	($3781)

Impact of Lowering the Switching Basket to a lower Rate of Return is:

Switching Basket ROR	*Access Reduction*
45.16%*	$0.00
11.25%	$2.04B
10.00%	$2.11B
9.50%	$2.14B

* Equals the Switching Basket ROR for 1997

Industry Contribution Analysis
Non-Rural Only

Contribution from SLC					
Company	1998 Switched Lines (Thousands)	25% of Hatfield Loop & Port	Composite SLC Rate (as of 1-1-99)	Contribution from SLC Per Line Per Month ($)	Contribution from SLC Annualized ($ Millions)
Total RBOCs	**130,779**	**$3.19**	**$4.86**	**$1.67**	**$2,616**
All Price Caps	**162,302**	**$3.41**	**$4.83**	**$1.42**	**$2,771**

Industry Contribution Analysis -- Price Cap ILECs Only
Contribution from Interstate Switched Access Carrier Rates

Company	1988 Total Estimated Switched AMOU (Millions)	Switched Access per AMOU		Contribution from Access	
		Economic Cost* (Blended HAI)	ILEC Rates** (as of 1/1/99)	Per Access Minute***	Annualized Total ($M)***
Total RBOCs	417,014	$0.00255	$0.01454	$0.01199	5,001
Total All Price Cap	510,770	0.00305	0.01586	0.01281	6,545
Plus PICC Charges					1,865
Less USF Flowback					791
Total Contribution with PICC and without Flowback					7,619

Notes:

* HAI Version 5.0a (*80% Dedicated and 20% Tandem)

** Switched Access Unit Cost without PICC Charges and with USF Flowback

*** Includes USF Flowback of $791 Millions

The ILEC's USF assessment (obligation), should be removed from Interstate Carrier Access charges. This would reduce carrier access charges by over $800M.

ILECs should recover this obligation directly from their end user (retail) customers.

Access Reduction
Interstate Non-Rural

If the current Mutual Compensation Rates* are used as a Proxy for Interstate Access Cost/Prices, we estimate this would still produce a reduction of over $5B in interstate switched access cost.

* Mutual Compensation rates for Ameritech, Bell Atlantic (Excluding Nynex), BellSouth, Pactel are .544¢, .439¢, .412¢, .373¢ per minute, respectively.

Conclusion...

There are no implicit subsidies in Interstate Access Charges which support USF for Non-Rural LECs.

These monopoly access profits result from:

1. Excess earnings measured against their current cost of capital and current investment on the books
2. Investment on their current books is overstated based upon recent FCC audits.
3. Misallocated costs between regulated versus unregulated services.
4. Investments in international ventures
5. Misallocation of cost between retail versus carrier to carrier service.
6. Excess/Inefficient Plant.

*Universal Service Annual Support Requirements @ FCC Benchmarks of $31 and $51 **

"FCC Unified" Input Values

	Non-Rural Carriers	*Rural Carriers*	*All Carriers*
Current Federal High Cost Fund	*$341,190,868*	*$1,382,391,256*	*$1,723,582,124*
Study Area	$738,976,441	$2,826,858,146	$3,565,834,587
Larger Between Study Area and Current	*$930,544,655*	*$2,961,512,211*	*$3,892,056,866*
Serving Wire Center	$2,874,520,878	$2,900,573,563	$5,775,094,441
Larger Between Serving Wire Center and Current	*$3,001,984,764*	*$3,028,206,325*	*$6,030,191,089*
Percent Lines Density <100 per square mile	*9.3*	*53.8*	
Percent Lines Density < 650 per square mile	*23.7*	*79.0*	

*Supporting all Residence and Business Lines Using FCC Unified Inputs

These results are prior to any jurisdictional allocation (eg. 25/75 division)

Distribution of Lines by Density Zone by Company Type

	Density Zones - Lines per Square Mile									
	0 to 5	5 to 100	100 to 200	200 to 650	650 to 850	850 to 2250	2250 to 5000	5000 to 10000	Over 10000	Total
Non Rural	1,112,003	15,497,525	7,228,056	18,468,443	6,020,270	41,865,105	37,644,790	25,416,359	25,179,755	178,432,306
Percent of Non-Rural Lines	0.62%	8.69%	4.05%	10.35%	3.37%	23.46%	21.10%	14.24%	14.11%	100%
Rural*	1,013,158	4,276,375	1,036,420	1,441,291	278,354	1,140,658	470,973	133,861	36,489	9,827,579
Percent of Rural Lines	10.31%	43.51%	10.55%	14.67%	2.83%	11.61%	4.79%	1.36%	0.37%	100%
Total Lines	2,125,161	19,773,900	8,264,476	19,909,734	6,298,624	43,005,763	38,115,763	25,550,220	25,216,244	188,259,885
Percent of Total Lines	1.13%	10.50%	4.39%	10.58%	3.35%	22.84%	20.25%	13.57%	13.39%	100%
Rural Percent of Lines	47.67%	21.63%	12.54%	7.24%	4.42%	2.65%	1.24%	0.52%	0.14%	5%

* Rural Carrier defined as providing telephone exchange service to any study area with fewer than 100,000 access lines.